

TEACHERS' RETIREMENT BOARD

INVESTMENT COMMITTEE

SUBJECT: 2003 - 2004 Investment Branch Objectives and
Committee Work Plan

ITEM NUMBER: 4

ATTACHMENT(S): 3

ACTION: X

DATE OF MEETING: July 9, 2003

INFORMATION:

PRESENTER: Christopher Ailman

Executive Summary & Policy:

As directed in the CalSTRS Investment Policy and Management Plan, the investment staff prepares and makes recommendations, while the Investment Committee reviews and considers for approval the attached list of 20 Investment Branch Objectives and Committee Work Plan for the 2003-2004 fiscal year.

Background:

CalSTRS has developed a very effective management tool for coordinating the workload between the Investment Branch and the Investment Committee. The investment branch objectives allow the Committee the opportunity to prioritize the work plan for the investment branch then measures the successful completion of these tasks. The investment staff's workload has two components, first the daily management of the investment portfolio and staff, and second, special project as they arise. Since special projects are in addition to the regular work plan of the investment branch, coordination of the schedule is critical. Once the Committee adopts the objectives, the committee's policy requires that any additions or deletions come before the full Committee for ratification.

Discussion:

In a typical year the CalSTRS Investment Committee meets eight times to accomplish the policy, monitoring, and consideration of transactions needed to manage the portfolio. The approved schedule compels a stringent level of discipline on the staff in order to be efficient and effective with the Committee's time. The work plan places emphasis on the core tasks of policy and monitoring. These core tasks are viewed by governance experts as the highest and best roles for a Board or Committee to conduct.

Each year, the Committee's desire is to delve into key issues to help develop new policies or expand existing ones. In addition, this year, two core Board level consultant contracts come up for renewal. These initiatives have been divided into two semesters to accommodate proper planning.

MAJOR INITIATIVES / PROJECTS

Fall Semester – 2003 2004 (September to February)	Consultant RFP – Real Estate & General Consultant Stochastic asset liability study Review of emerging markets Comprehensive real estate policy review
Spring Semester - 2004 (March to July)	Board member orientation Complete the fall projects Private equity policy & program review Study income enhancement ideas

To provide a visual picture of the workload, attached is the tentative Committee agenda for the next fiscal year (Attachment 1). The major initiatives, (mentioned above), overlap several meetings and are represented by the large boxes. Please keep in mind that the agendas will also fill up with potential real estate and private equity investment recommendations that exceed the level of staff delegation. Since the Board expects to hold all the CalSTRS Committee meetings on one day, staff will strive to even out the workload to keep the meetings manageable.

Several of the fall projects have been discussed at prior meetings. The stochastic asset liability study will likely take several meetings to complete, and the emerging markets study will be restarted. In addition, both the general consulting contract and the real estate consulting contract expire in early 2004. Since both are consultants to the Board, defining the scope of services and conducting finalist interviews must involve the Investment Committee members. Therefore, both have been incorporated into the schedule.

In the spring of 2004, there are several projects to consider. First, at the start of the year, the Committee may have some new Board members aboard; both an investment and fiduciary orientation will be required. Second, follow-up is needed on the initial private equity program study with McKinsey as it pertains to structure and scope. Last, if time permits, staff would like to explore with the Committee new ideas that may generate added income in a low yielding capital market environment.

Prepared on June 11, 2003
Recommend by

Christopher J. Ailman
Chief Investment Officer

CalSTRS Investment Committee 2003 - 2004 Meeting Work Plan

FALL SEMESTER				
September '03	October '03	November '03	December '03	February '04
Conclude the Stochastic Asset Liability Study				
<div>Real Estate – Policy Revision</div> <div>RFP – Real Estate Consultant</div> <div>Annual Review</div> <div>Benchmark Modification Policy</div> <div>Annual Report</div> <div>Fixed Income Portfolio</div> <div>Semi-annual Investment Performance Reports</div> <div>Total Fund</div> <div>Real Estate</div> <div>Private Equity</div> <div><u>Semi-annual Reports:</u></div> <div>California Inv. Policy</div> <div>External Manager Rating</div> <div>Equity</div> <div>Fixed Income</div> <div>Real estate</div> <div>Private Equity</div> <div>Activity Status Reports</div>	<div>Board Retreat and Workshop</div>	<div>Real Estate – Policy Revision</div> <div>RFP – General Consultant</div> <div>RFP – Project Consultants</div> <div>Equity Investment Policy – Revision</div> <div>Annual Report: Currency Hedging Program</div> <div>Activity Status Reports</div>	<div>Develop a Policy and Plan for the Non-US Emerging Markets</div> <div>Investment insights panel – Topic TBD</div> <div>Finalist Interviews: Real Estate Consultant</div> <div>Equity Investment Policy – revision / adoption</div> <div>Activity Status Reports</div>	<div>New Board Member Orientation</div> <div>Investment Portfolio – Overview</div> <div><u>Semi-annual Report</u> on California Investments</div> <div><u>Annual Report</u> Home Loan Program</div> <div>Activity Status Reports</div>

SPRING SEMESTER				
March '04	April '04	May '04	June '04	July '04
Finalist Interviews : Generalist Consultant <u>Semi-annual Investment Performance Reports</u> Total Fund Real Estate Private Equity <u>Semi-annual Reports:</u> California Inv. Policy External Manager Ratings Equity Fixed Income Real Estate Private Equity Activity Status Reports	<div> Board Strategic Planning Retreat and Workshop </div>	<div>Income Enhancement Ideas</div> <div>Private Equity – Program and Policy Review</div> <div> <u>Annual Reports:</u> Currency Hedging Program Cash Equitization Program Directed Brokerage 2003 Annual Report Mid-year Investment Division Budget </div> <div>Activity Status Reports</div>	<div>Investment Insights Topic TBD</div> <div>General Consultant - Policy Review</div> <div>Activity Status Reports</div>	<div> ANNUAL BUSINESS PLANS & Investment Policy and Work Plan for 2004 - 2005 </div> <div>Activity Status Reports</div>

INVESTMENT BRANCH
2003 – 2004 INVESTMENT OBJECTIVES TIMELINE

DIVISION	DESCRIPTION	SEMESTER	STATUS
ALTERNATIVE INVESTMENTS	Program and policy review with the program consultant.	SPRING	
	Present a semi-annual evaluation and rating of partnerships	FALL SPRING	
CREDIT ENHANCEMENT	Present a comprehensive Annual Report on the Credit Enhancement Program.	SPRING	
EXTERNAL EQUITY	Present a semi-annual rating on all the external investment managers.	FALL & SPRING	
	Comprehensive revision of the Equity Policy	FALL	
	Implement the second step in the shift to a higher active U.S. equity allocation.	SPRING	
CORPORATE GOVERNANCE	Develop a comprehensive standard for executive compensation	FALL	
	Develop corporate governance activism plan including a co-investment program.	SPRING	
DIRECTED BROKERAGE	Present a comprehensive financial report for the calendar year 2003.	SPRING	
INTERNAL EQUITY	Present an annual report to the Cash Equitization program.	SPRING	

INVESTMENT BRANCH
2003 – 2004 INVESTMENT OBJECTIVES TIMELINE

DIVISION	DESCRIPTION	SEMESTER	STATUS
FIXED INCOME	Present an annual report on Fixed Income portfolio.	FALL	
	Present a semi-annual rating of the external high yield managers	FALL & SPRING	
	Present an annual report on the Currency Hedging Program.	FALL	
	Present an annual report on the Home Loan Program.	FALL	
	Present an Annual Report on the Securities Lending Program.	SPRING	
REAL ESTATE	Real Estate Consultant RFP, interviews, and contract negotiation.	FALL	
	Engage a comprehensive revision of the Real Estate Policy with PCA	FALL	
CHIEF INVESTMENT OFFICER	Complete the stochastic asset liability study and integrate any changes into the appropriate CalSTRS Investment Policies	FALL	
	Orient new Board members and assist the Committee with the pension governance review	SPRING	
	Present a mid-year budget report on the three Investment Branch budgets.	SPRING	
	Present the semi-annual report as required by the California Investment Policy.	FALL & SPRING	

PROPOSED
RESOLUTION
OF THE
TEACHERS' RETIREMENT BOARD
INVESTMENT COMMITTEE

SUBJECT: 2003 – 2004 Investment Branch Objectives and
Committee Work Plan

Resolution No. _____

WHEREAS, the Investment Committee of the California State Teachers' Retirement Board is responsible for recommendation to the Board, investment policy and overall investment strategy for the management of the Teachers' Retirement Fund, a multi-billion dollar public pension plan; and

WHEREAS, the Investment Committee has received and reviewed written recommendation for the 2003/2004 Business Plans and the Long-Term Investment Branch Financial Plan from staff and its consultant, Pension Consulting Alliance; and

WHEREAS, the Investment Committee has heard the oral presentations from staff, Therefore, be it

RESOLVED, that the Investment Committee of California State Teachers' Retirement Board adopt the 2003/2004 Business Plans and the Long-Term Investment Branch Business Plan

Adopted by:
Investment Committee
on July 9, 2003

Jack Ehnes
Chief Executive Officer